

TENSIONS[★]

A PHD PROGRAMME IN POST-SOVIET AFFAIRS



Where does the money come from?

Financing the budget and the pension system in post-Soviet de facto states

Giorgio Comai
Dublin City University

www.giorgiocomai.eu
@giocomai

Starting point

- Post-Soviet de facto states can be conceptualised as small dependent jurisdictions.
- Does the MIRAB model (migration, remittances, aid, and bureaucracy) apply to de facto states?
- Check:
 - ✓ Key role of “external sources of financing that do not leave a residue of debt—current account transfers”
 - ✓ High number of state employees and pensioners (byudzhethniki)

Empirical observations

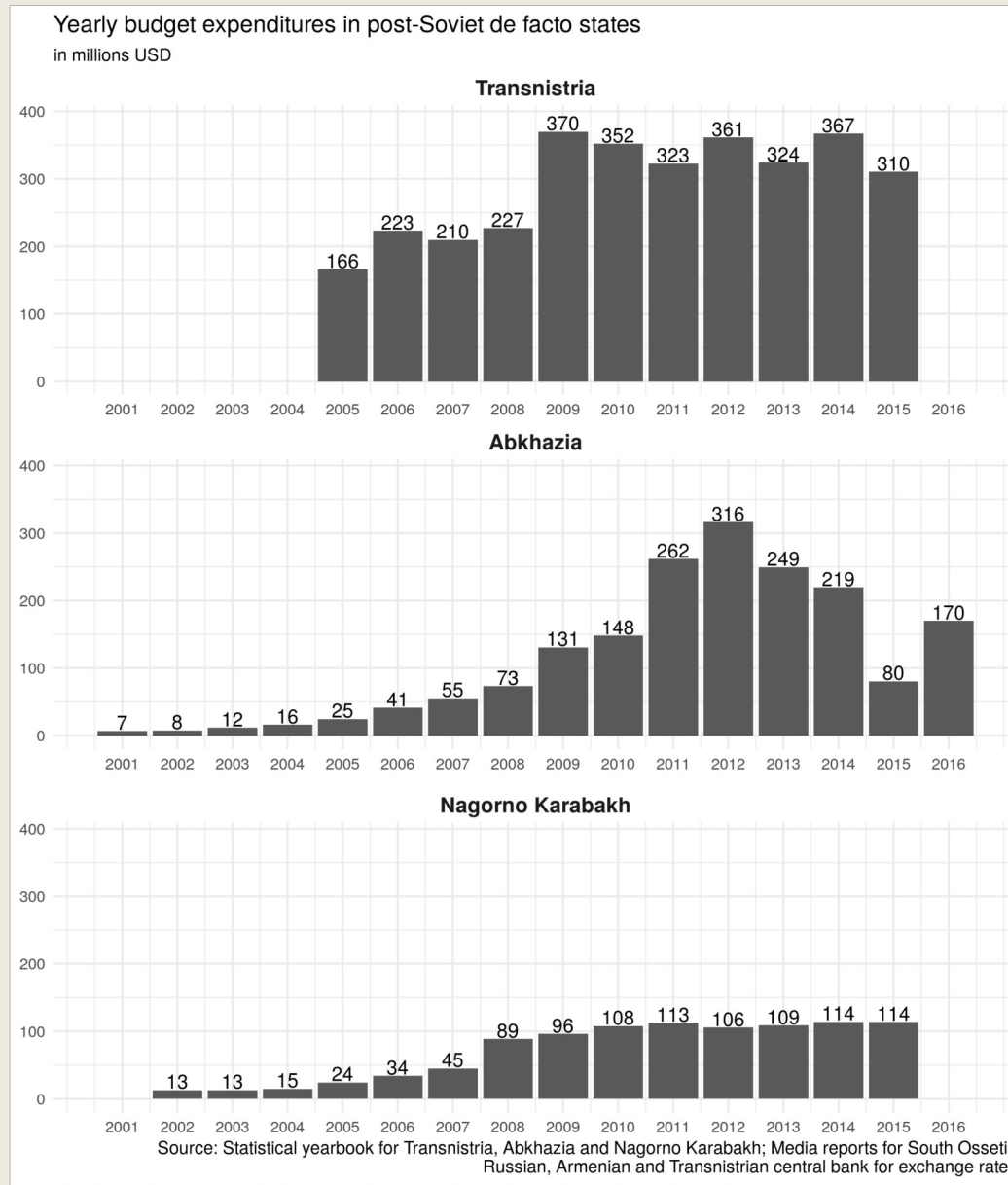
In post-Soviet de facto states:

- state capacity largely depends on external assistance, mostly coming from the patron
 - the livelihood of most residents largely directly depends on such assistance
-

Along these parameters:

- they would be very unusual independent states
- but very normal small dependent jurisdictions

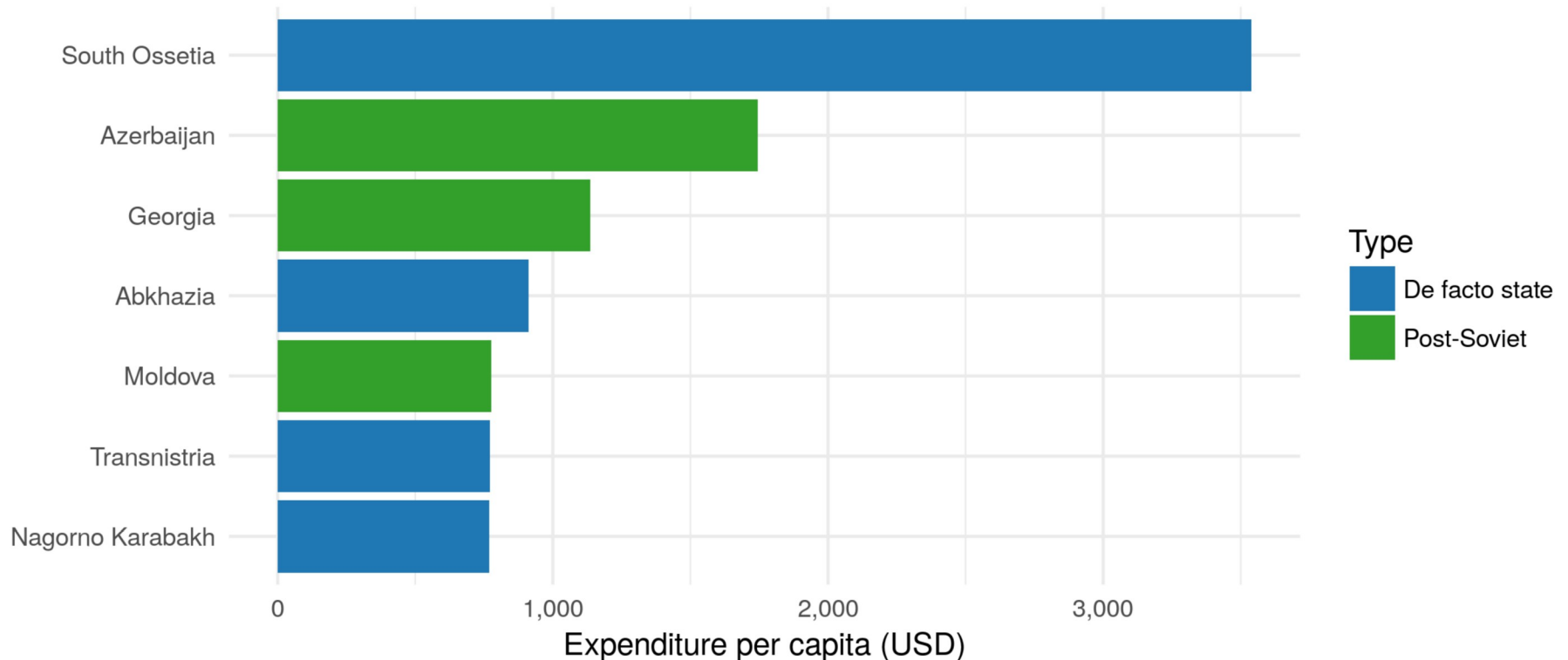
Their budgets have been increasing



And they are now comparable to those of their parent states

Expenditure per capita in post-Soviet de facto states and their parent states

As of 2014



Source: World Bank, statistical offices of de facto states

Where does the money come from?



Money for public services and pensions



Hint:

admittedly, not from domestic resources

“With our own resources, we cover for about 20-25 per cent of the state functions, which speaks for itself”

Evgeny Shevchuk (2013), president of Transnistria

“In other words, with our own resources, we are able to maintain only half of the state apparatus – I am referring to the salary of state employees”

Raul Khajimba (2016), president of Abkhazia

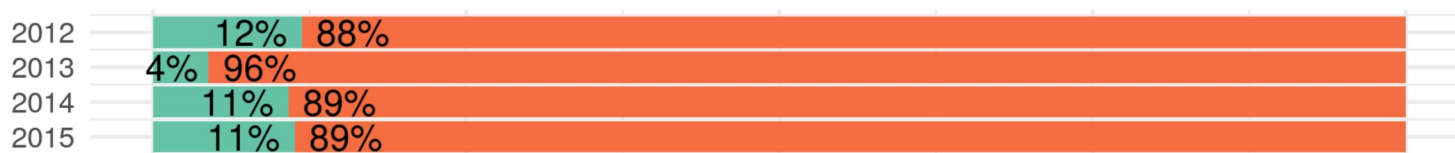
Mostly, from the patron

Share of the budget from domestic incomes and aid

Abkhazia



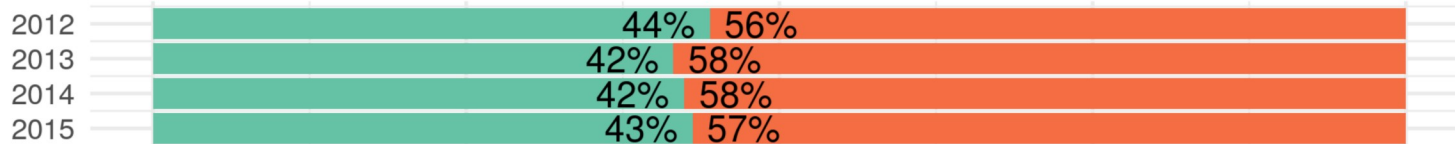
South Ossetia



Source of income



Nagorno Karabakh



0% 25% 50% 75% 100%

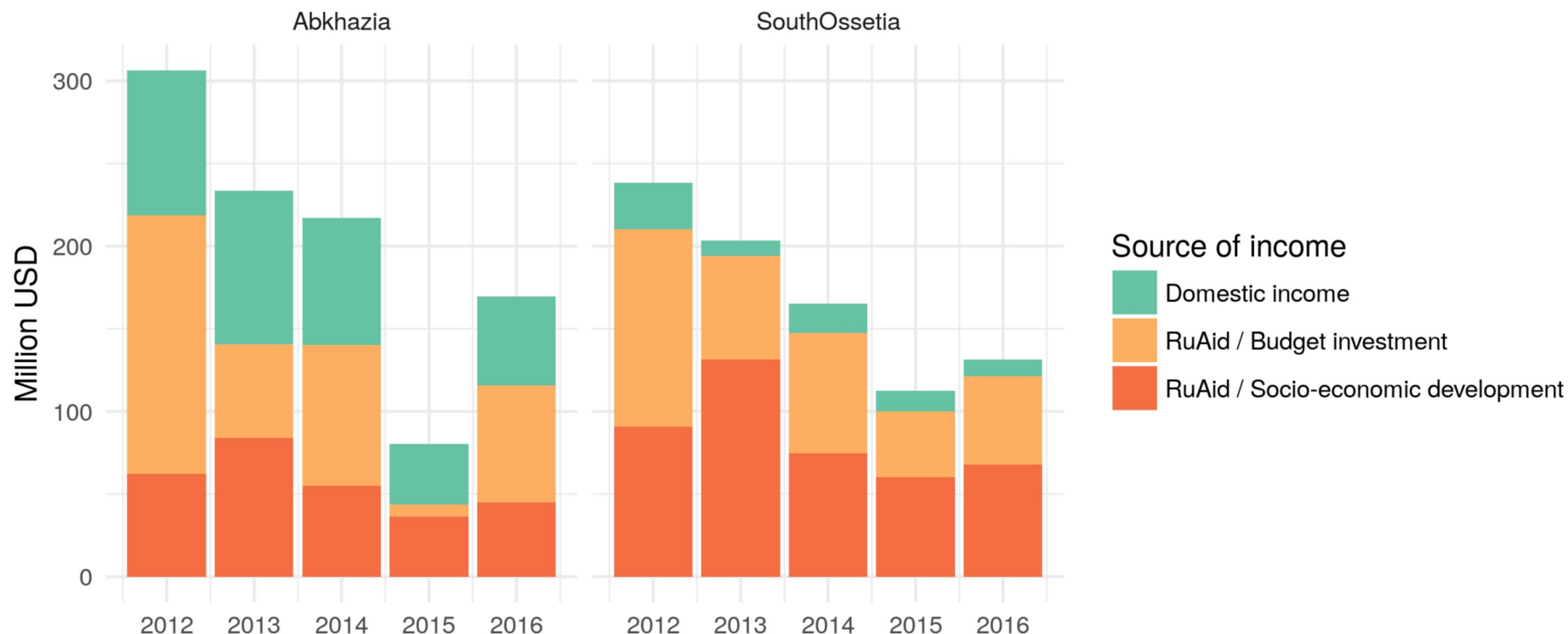
Share of the budget

Source: statistical yearbooks of Abkhazia and Nagorno Karabakh, aggregated official and media sources for South Ossetia

Money for ordinary activities and infrastructural project

Total incomes to the budget of Abkhazia and South Ossetia

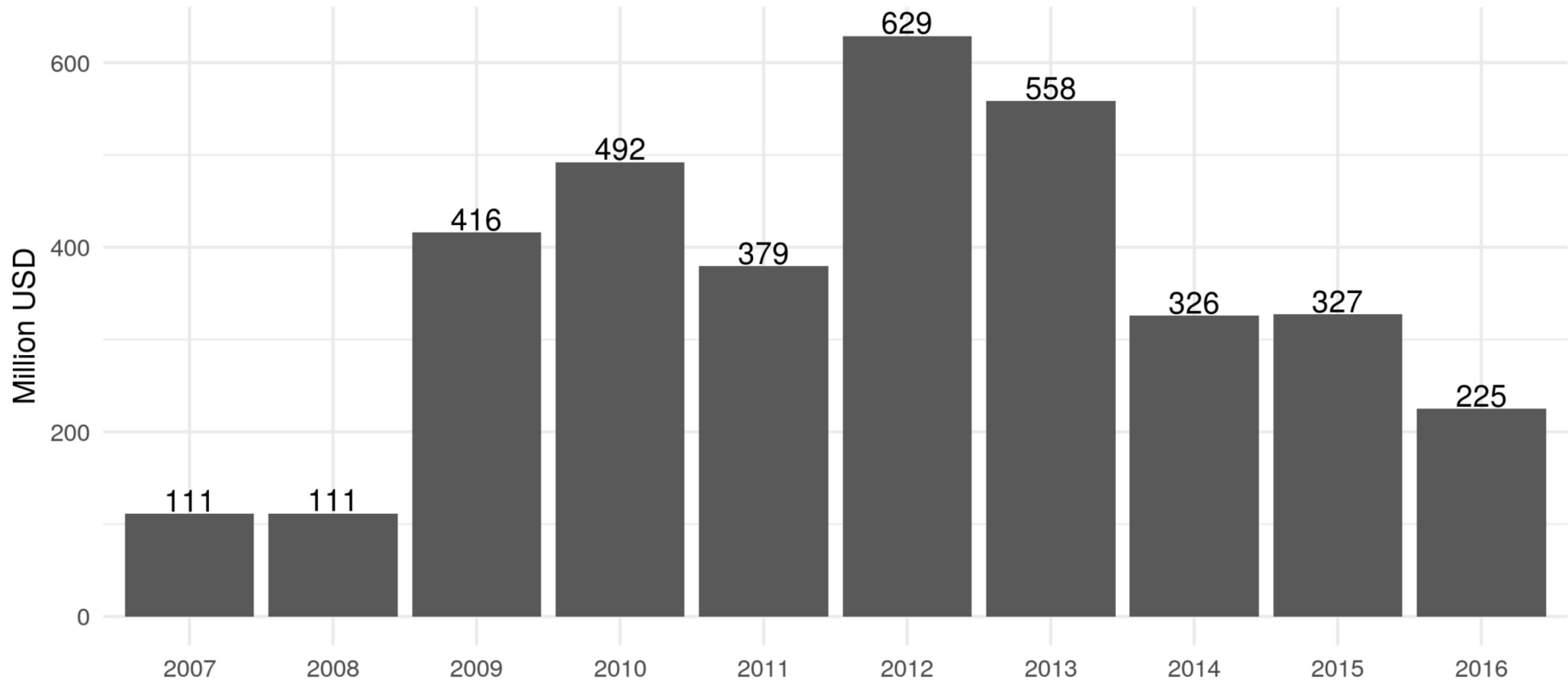
Different types of Russian aid and domestic incomes



*only direct budget transfers, does not include pensions and other forms of assistance

Also in Transnistria, through free gas

Transnistria's gas debt growth on a yearly basis
or value of Russia's 'gas aid' to Transnistria (in million USD)

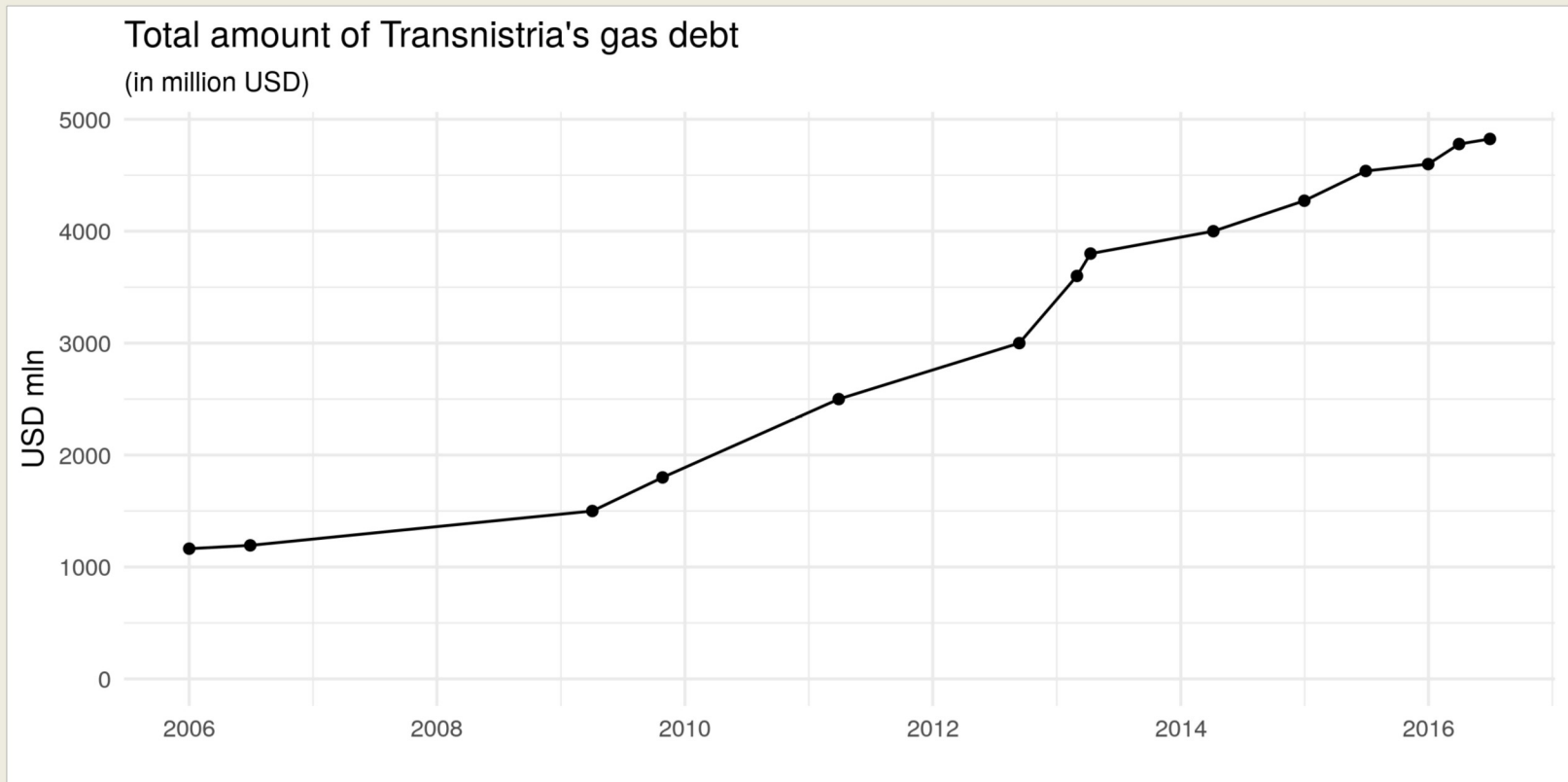


N.B. data on 2016 include only data until 31 June 2016

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The “debt” grows?

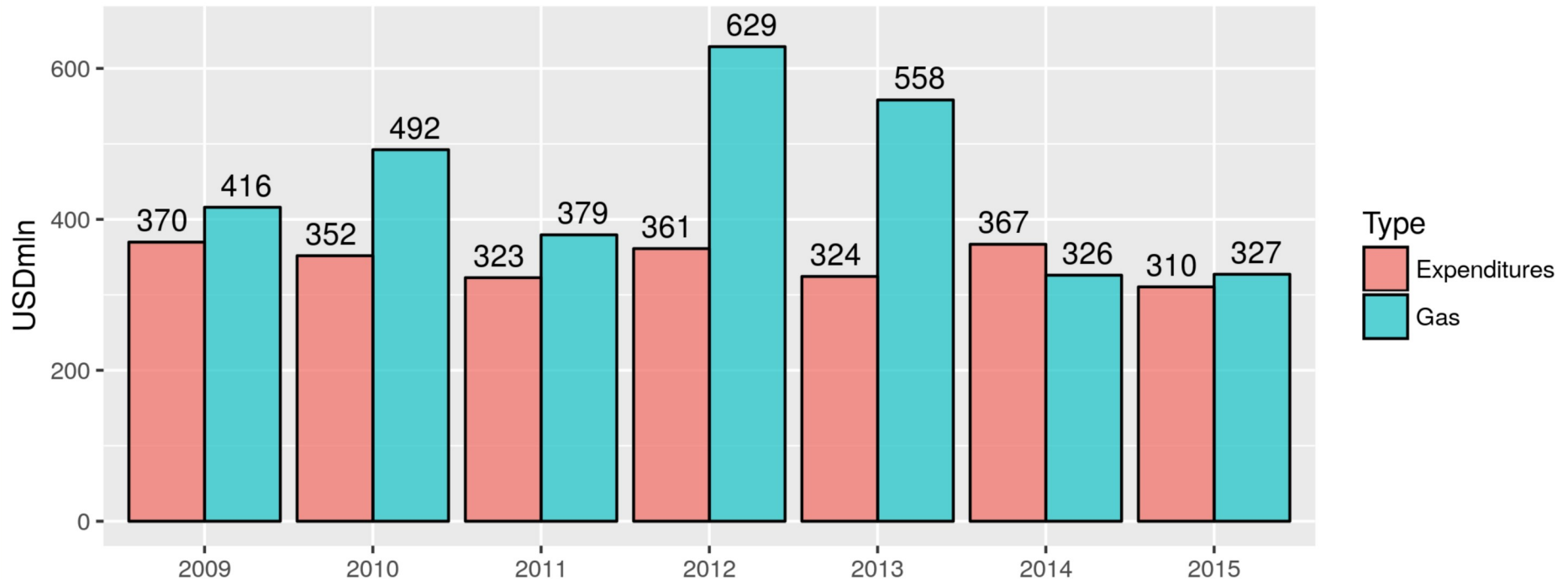


There is no expectation of repayment
→ not debt, but current account transfers

N.B. free gas \neq free money

Yearly budget expenditures and value of gas imported in Transnistria

In million USD



Yearly amount of gas estimated from publicly available data
on the total size of the gas debt accumulated by Transnistria

* this does not include pensions, humanitarian assistance, etc.

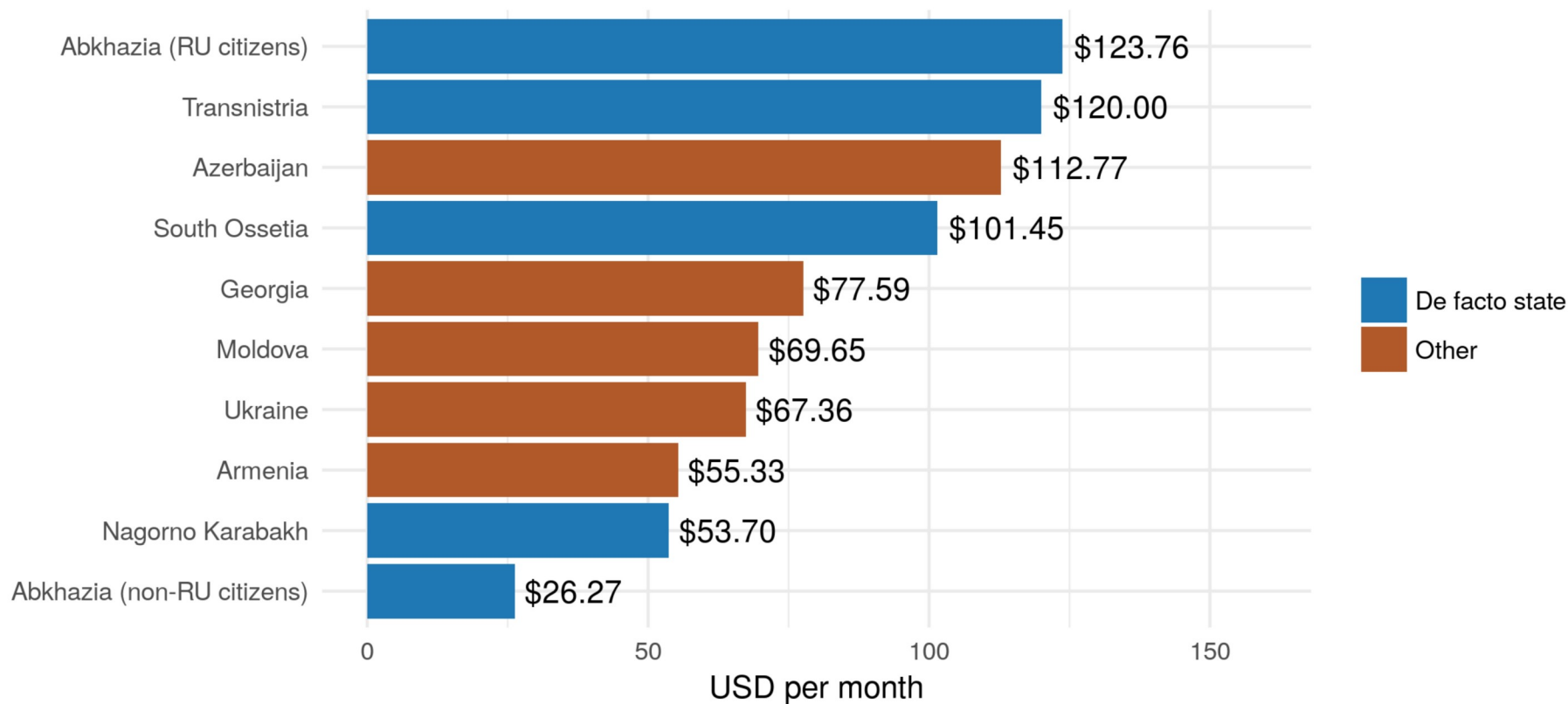
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Money that pay for relatively good pensions (largely, on top of budget assistance)

Average pension in post-Soviet de facto states and selected countries

Based on 2016 data, or latest available



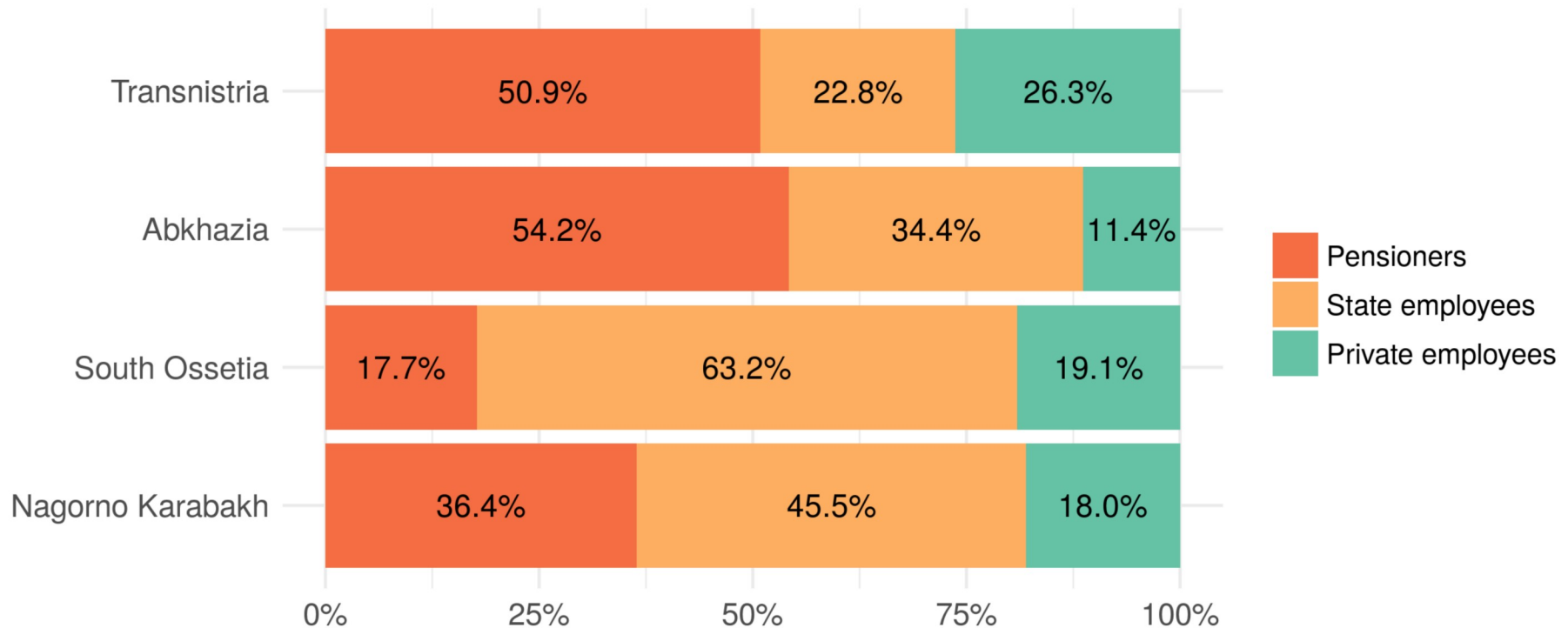
+ bonus earlier pension age (60 for men and 55 for women)

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And for the incomes of a relatively large share of residents

Share of people with registered cash incomes, by type of income
As of 2015



Source: Aggregated data from relevant offices in de facto states and Russia

* excluding self-employed

In de facto states:

+80% of registered incomes “byudzhethniki”

+50% of the budget from aid

Anything unusual?

Not really.

Such figures are ‘normal’ for small dependent jurisdictions.

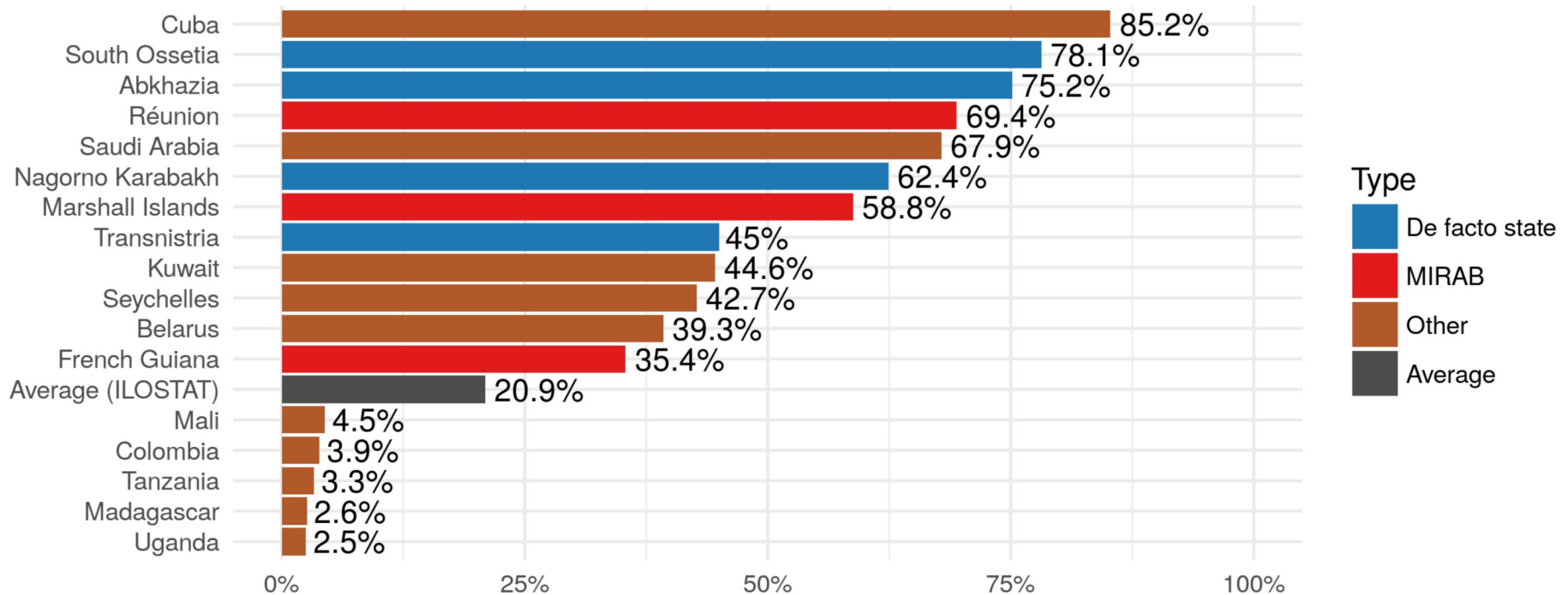
Around the world, and in the region.

Sovereign, and non-sovereign.

Levels comparable to MIRAB economies

Share of public workers in workforce

Countries with highest and lowest share of state employees
plus post-Soviet de facto states



Source: ILOSTAT database

Or to small countries with oil (indeed, in this context, aid can be assimilated to a rent such as oil revenues)

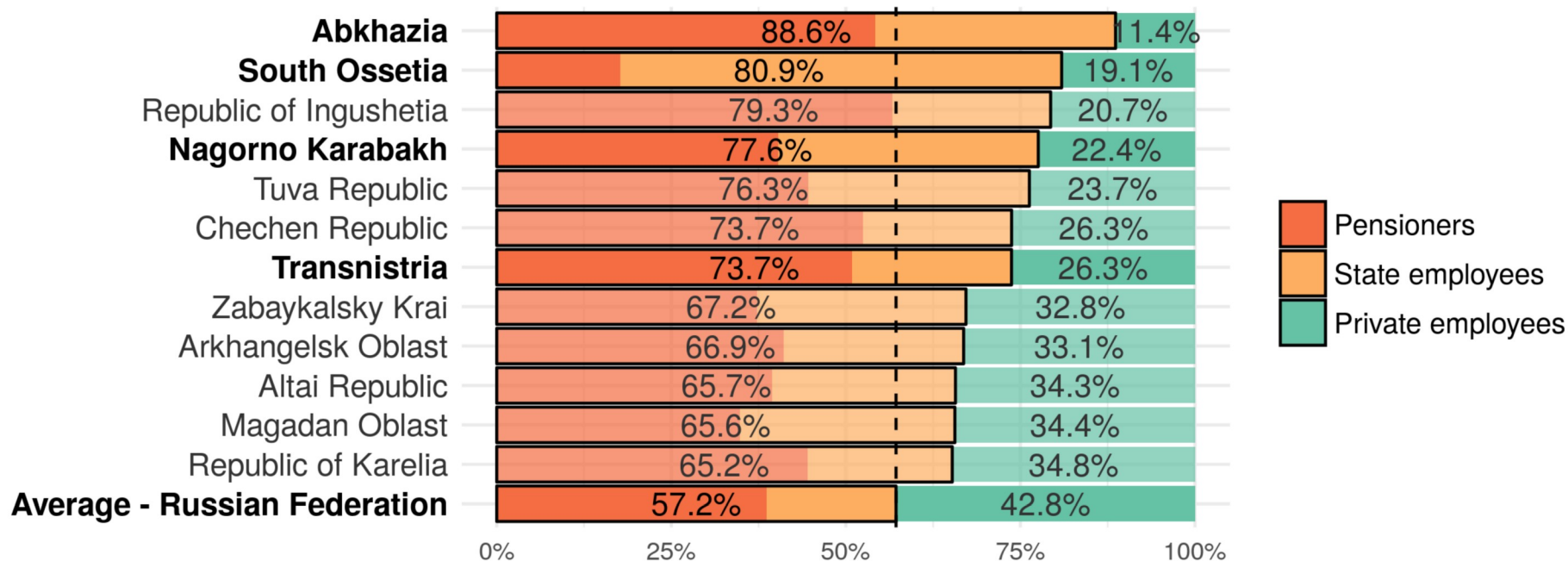
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Levels comparable to republics in Russia's N. Caucasus and distant regions

Share of people with registered cash incomes, by type of income

Post-Soviet de facto states, average Russian, and Russian subjects with highest share of state employees+pensioners

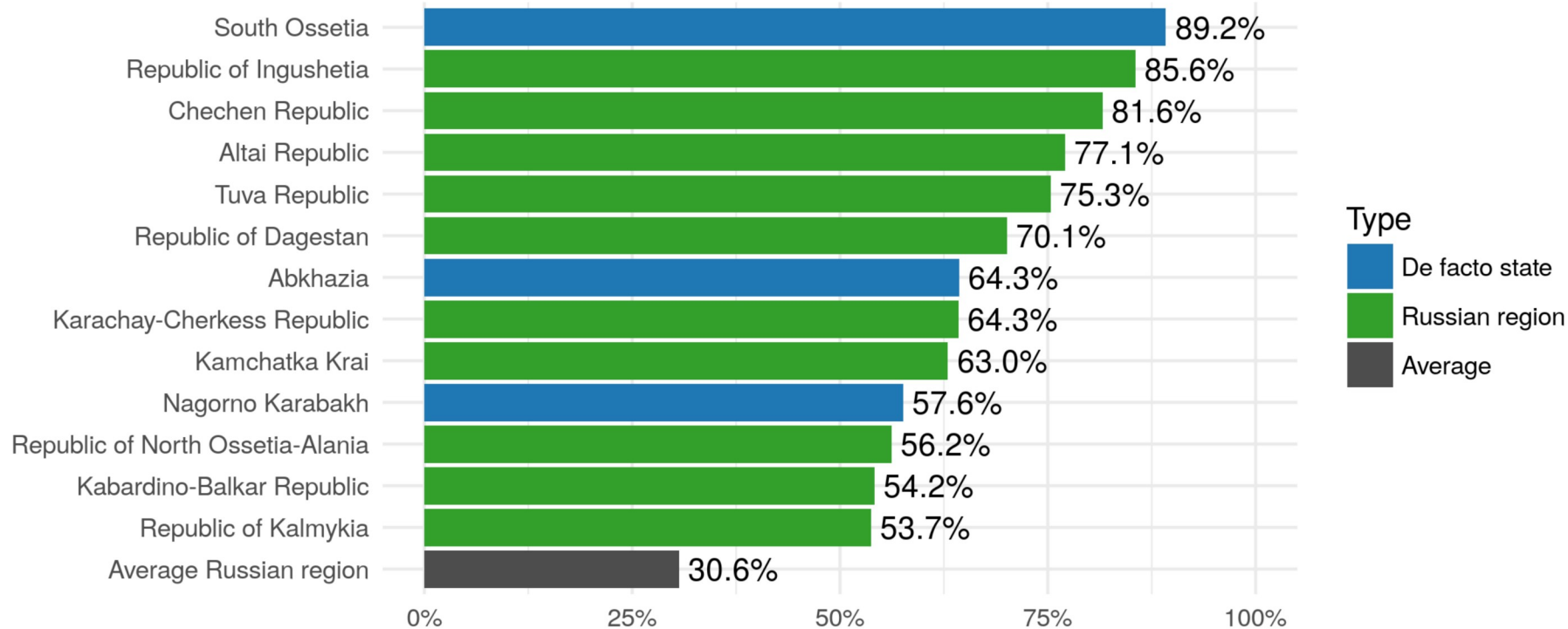


Source: Aggregated data from relevant offices in de facto states and Russia; data as of 2014 (for Nagorno Karabakh and Russia), as of 2015 for other de facto states

Levels of subsidies comparable to republics in Russia's northern Caucasus

Share of subsidies to the budget (2014)

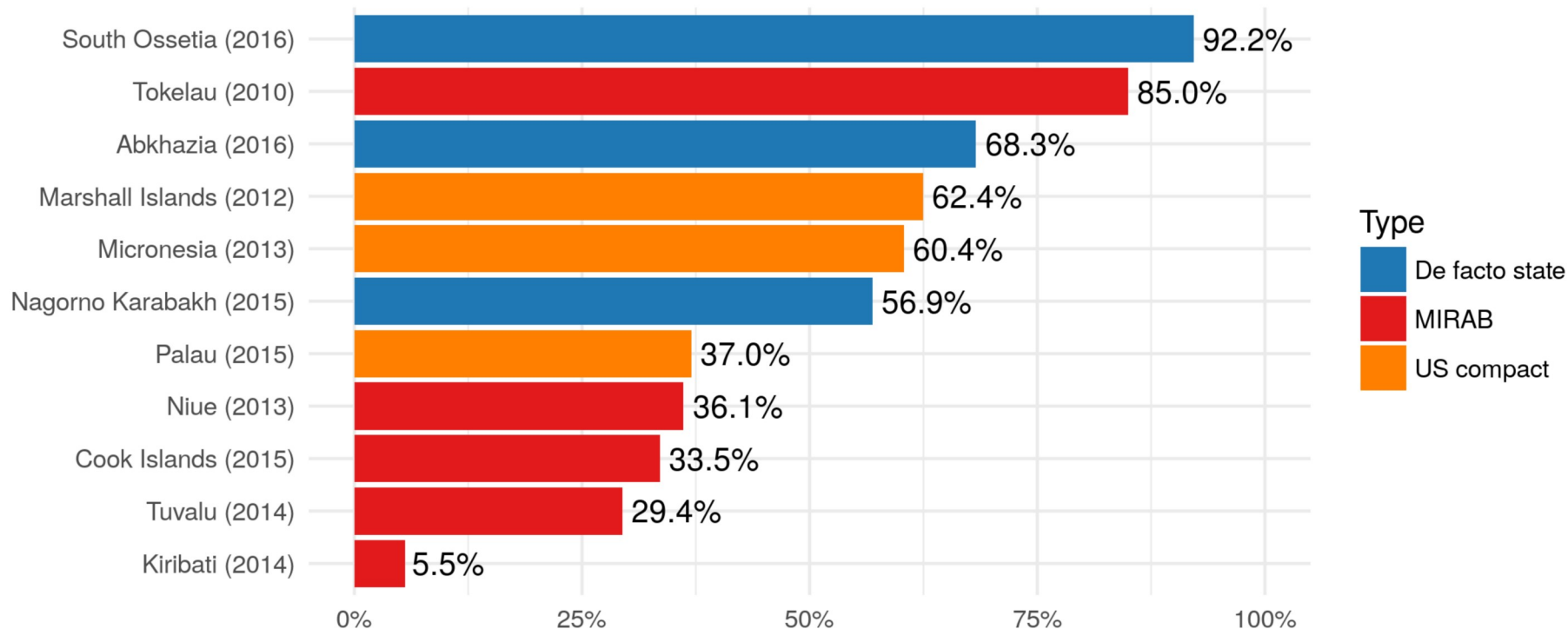
Subjects of the RF with highest share of subsidies and post-Soviet de facto states



And to small dependent jurisdictions in other world regions

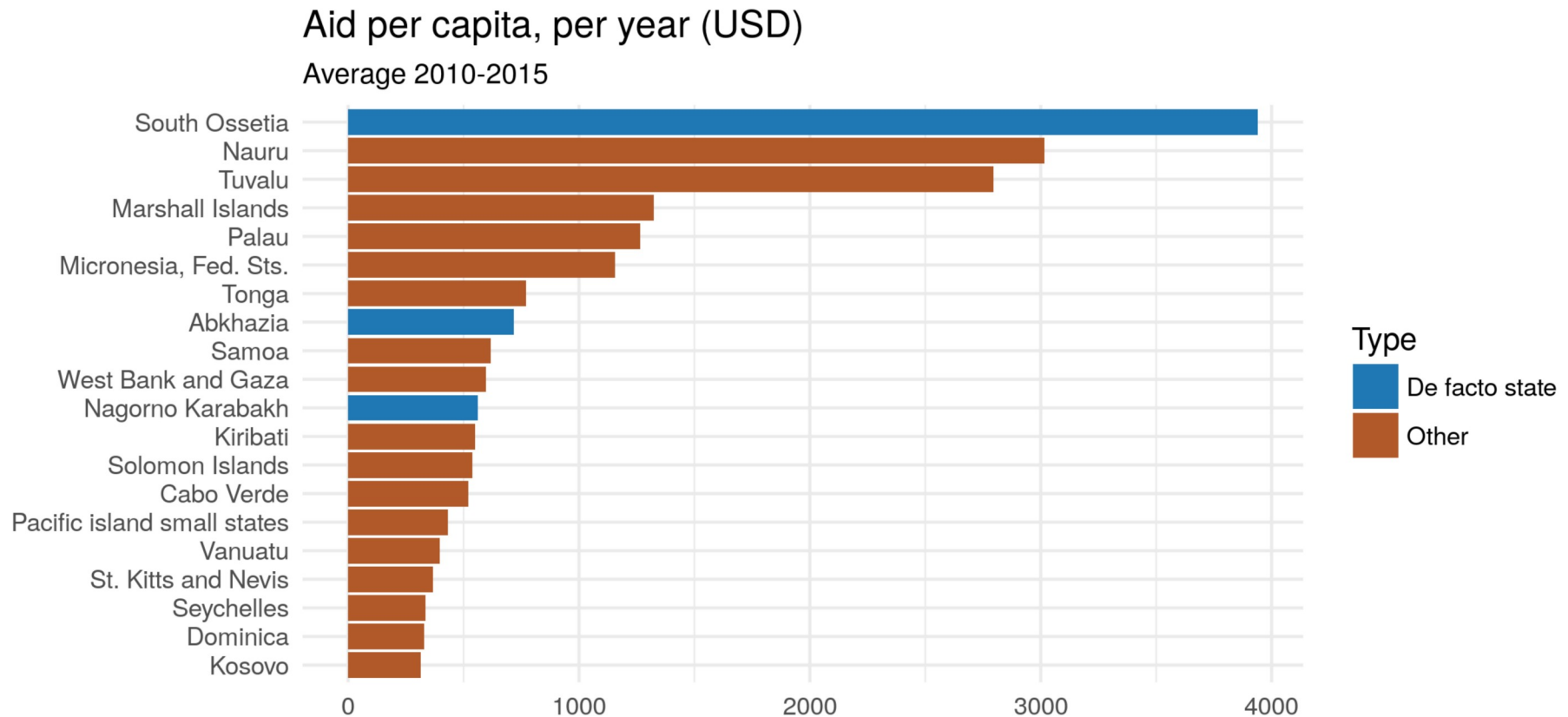
Share of subsidies to the budget

MIRAB countries, US compact, and post-Soviet de facto states



* Includes latest available data for each of the territories included

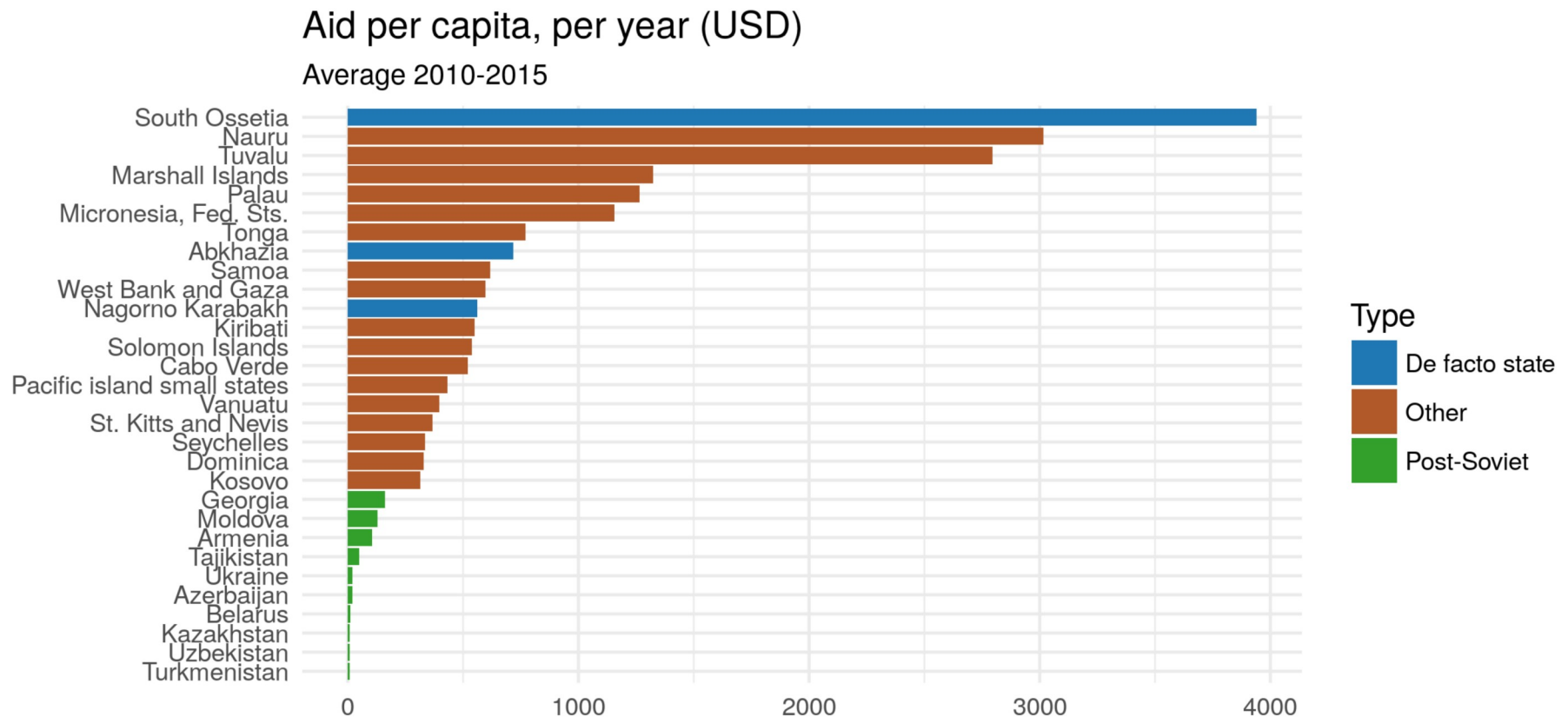
Also looking at aid per capita



Source: World Bank; population of de facto states estimated at 90% of official data

*data for de facto state include only direct budget assistance from patron. Others: all ODA

But they get much more than recognised countries in the region



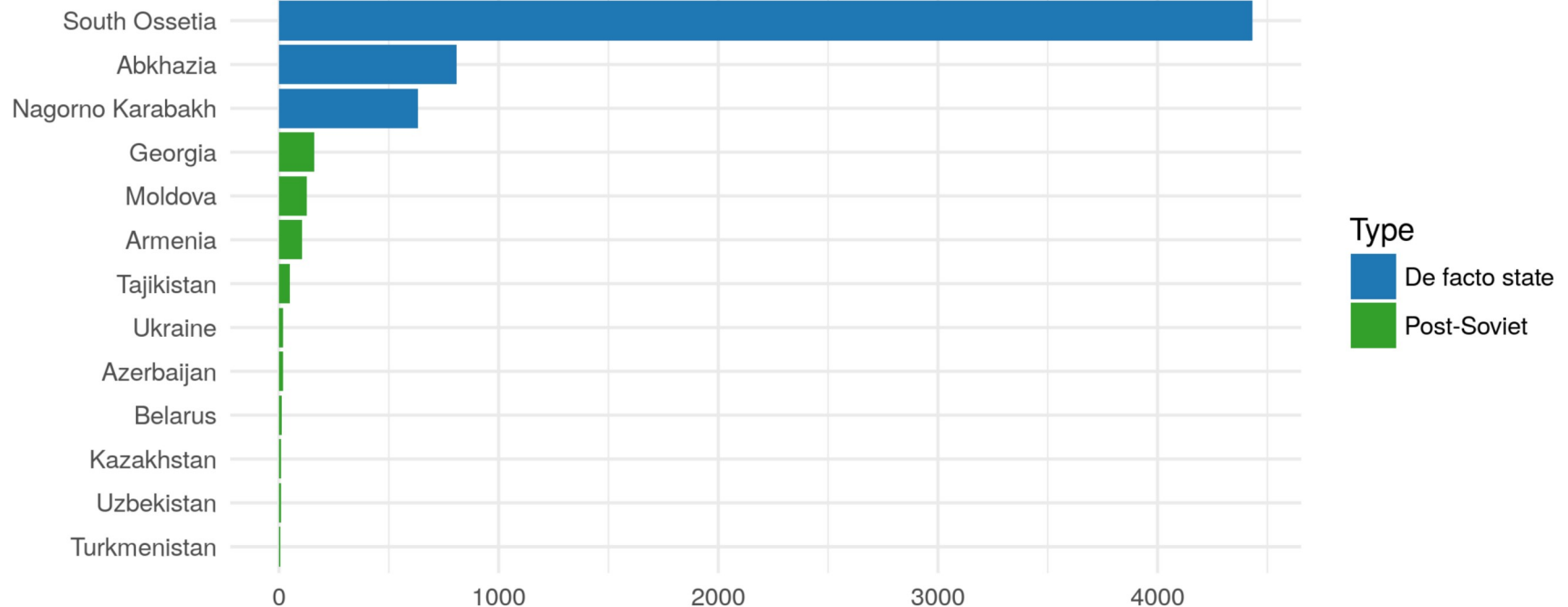
Source: World Bank; population of de facto states estimated at 90% of official data

*data for de facto state include aid only from patron, and only directly to the budget. Others: all ODA

Yes, a lot more

Aid per capita, per year (USD)

Average 2010-2015



Source: World Bank; author's estimates

*data for de facto state include aid only from patron, and only directly to the budget. Others: all ODA

Even not accounting for...

Pensions

- ~35 mln USD per year in Transnistria (2015)
[or ~120 mln USD, including budget support]
- ~35 mln USD per year in Abkhazia (2015)
- ~4 mln USD in South Ossetia (2015)

Diaspora assistance to Nagorno Karabakh

- ~ 20 mln USD (?) per year

International assistance

- ~20 mln USD per year for Abkhazia

And for all the rest

- defence
- technical support for state-building
- scholarships (e.g. 300 new students fully funded for the whole course of study every year from Abkhazia)
- healthcare services
- an internationally recognised passport
- freedom of movement
- Etc. (similarly to other small dependent jurisdictions)

Issues of data reliability

- Yes, some data are due to be inaccurate, but this is due to be mostly true also for terms of comparisons*
- Number of state employees and pensioners is due to be accurate → private sector underestimated, but based on estimates of the total population, not incredibly so
- Data from de facto states are so much unlike recognised states in the region, that the argument remains valid

* According to official Russian estimates, employment in the informal sector is ~45% of the registered workforce in the North Caucasus federal district (63% in Chechnya, 57% in Daghestan, 51% per cent in Ingushsetia).

Conclusions [1/2]

in post-Soviet de facto states...

- financial resources coming from the patron are the main determinant of budget expenditures (spending adapts to aid)
- the share of people whose income depends on the state (state employees and pensioners) is high
→ “normal” small dependent jurisdictions

Conclusions [2/2]

- by increasing expectations, external assistance makes these territories less and less self-sustainable
- ultimately, as Pacific islands can testify, being a MIRAB economy has many advantages; for large segments of the resident population and its ruling class reaping its benefits may be preferable to struggling to escape it
- All together, less than 0.5% of Russian public expenditure... expensive but affordable

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